BUDGET RESOLUTION/Surplus for IRA Retirement

SUBJECT: **Senate Concurrent Budget Resolution for fiscal years 1999-2003 . . . S.Con. Res. 86. Roth amendment No. 2209.**

ACTION: AMENDMENT AGREED TO, 51-49

SYNOPSIS: As reported, S.Con. Res. 86, the Senate Concurrent Budget Resolution for fiscal years 1999-2003, will balance the unified budget in 1998 and will run surpluses for each of the next 5 fiscal years. Both Federal spending and Federal revenues will increase 3.5 percent from fiscal year (FY) 1998 to FY 1999. All surpluses will be reserved for Social Security reform. A reserve fund will be established to allow the entire Federal share of revenues resulting from a potential tobacco settlement to be dedicated to bolstering Medicare's solvency.

The Roth amendment would express the sense of the Senate that "this resolution assumes that the Committee on Finance shall consider and report a legislative proposal this year that would dedicate the Federal budget surplus to the establishment of a program of personal retirement accounts for working Americans and reduce the unfunded liability of the Social Security program." The amendment would also make 9 findings, including: if a 28-year-old American earning an average wage put 1 percent of his or her income into a personal retirement account invested in Standard & Poors 500 securities, at his or her retirement at age 65 the account would hold $132,000 and would be worth approximately 20 percent of the benefits that would be provided under the current provisions of Social Security; personal retirement accounts would give the majority of Americans who do not own any investment assets a new stake in the economic growth of America; personal retirement accounts would help Americans prepare for retirement (60 percent of Americans have no retirement plans other than Social Security, which is supposed to be a supplemental plan); the Federal budget will have a surplus of $671 billion over the next 10 years, which will give a unique opportunity to begin a permanent solution to Social Security's financing; and using the Federal budget surplus to fund personal retirement accounts would be an important first step in comprehensive Social Security reform and ensuring the delivery of promised retirement benefits.

NOTE: The Social Security system was initially designed to be a supplemental retirement, paygo system, under which each year's receipts roughly matched each year's payments. Social Security's trust fund, on average, held enough Treasury notes to pay 1 year's

(See other side)

YEAS (51)

Republicans (49 or 89%)		Democrats (2 or 4%)
Abraham	Hutchison	Breaux
Allard	Inhofe	Robb
Ashcroft	Kempthorne	
Bennett	Kyl	
Brownback	Lott	
Burns	Lugar	
Campbell	Mack	
Chafee	McCain	
Cochran	McConnell	
Coverdell	Murkowski	
Craig	Nickles	
DeWine	Roberts	
Domenici	Roth	
Enzi	Santorum	
Faircloth	Sessions	
Frist	Shelby	
Gorton	Smith, Bob	
Gramm	Smith, Gordon	
Grams	Specter	
Grassley	Stevens	
Gregg	Thomas	
Hagel	Thompson	
Hatch	Thurmond	
Helms	Warner	
Hutchinson		

NAYS (49)

Republicans (6 or 11%)	Democrats (43 or 96%)	
Bond	Akaka	Johnson
Coats	Baucus	Kennedy
Collins	Biden	Kerrey
D'Amato	Bingaman	Kerry
Jeffords	Boxer	Kohl
Snowe	Bryan	Landrieu
	Bumpers	Lautenberg
	Byrd	Leahy
	Cleland	Levin
	Conrad	Lieberman
	Daschle	Mikulski
	Dodd	Moseley-Braun
	Dorgan	Moynihan
	Durbin	Murray
	Feingold	Reed
	Feinstein	Reid
	Ford	Rockefeller
	Glenn	Sarbanes
	Graham	Torricelli
	Harkin	Wellstone
	Hollings	Wyden
	Inouye	

NOT VOTING (0)

Republicans (0)	Democrats (0)

EXPLANATION OF ABSENCE:
1—Official Business
2—Necessarily Absent
3—Illness
4—Other

SYMBOLS:
AY—Announced Yea
AN—Announced Nay
PY—Paired Yea
PN—Paired Nay

Compiled and written by the staff of the Republican Policy Committee—Larry E. Craig, Chairman

worth of benefits. Those notes operated the same as Treasury notes that a private individual might own--they were debt instruments that were redeemed from the general fund of the Treasury, with interest. In the early 1980s, during a recession when Social Security was on the brink of insolvency, Social Security was changed from a paygo system. After years of the program growing through higher taxes and higher benefits, a change was made--taxes were increased and benefits were restrained. The stated purpose was to build up huge reserves to make the program solvent for 75 years, though there was certainly an expectation among many people at the time that the fix would be of much shorter duration (the claim of an extra 75 years solvency, believed or not, made it politically more acceptable to raise Social Security taxes). The reason why it was understood that huge reserves would be necessary was due to demographics. The baby-boom generation would begin retiring in about 2015, baby-boomers had much longer life expectancies than previous generations (and thus would be drawing Social Security benefits for much longer periods of time), and baby-boomers had not had many children, so there would be fewer workers to pay for those benefits. Whether expected or not, huge surpluses were then generated. Those receipts were not saved, though, they were spent--the surplus went into Treasury notes, as required, and Congress then spent every penny. Congress approved then-President Reagan's proposed tax cuts, but those cuts did not cause deficit spending--the economy grew so fast that in every year total tax receipts went up, even though tax rates had declined. The problem is that Congress rejected President Reagan's proposed spending cuts. Instead, it increased spending even faster than tax collections increased. The United States currently has roughly $5.5 trillion of debt. Much of that debt is money that the Government owes to its own programs, including the Social Security program.

Those favoring the amendment contended:

Senators who think that the bud

new solutions with much higher rates of return. Frankly, if we and our colleagues could come to an agreement on how to balance the budget without Social Security surpluses, we would favor having every ever penny of those surpluses put into Social Security IRAs, because that would represent a $1.5 trillion investment over the next 10 years.

We are hopeful that a bipartisan compromise on this issue will be reached. No one wants to see Social Security fail; no one wants to see any senior citizens without retirement income. Many options, such as making IRAs voluntary, guaranteeing the same minimum payment if investments do not yield returns, and phasing out government payments when investments yield exceptional returns can be considered. The Roth amendment gives Senators a chance to take a first step in the battle to save Social Security. We urge them to vote for its adoption.

Those opposing the amendment contended:

We must oppose the Roth amendment out of caution. Frankly, the proposal is intriguing, and in the near future we are very likely to support some type of IRA in association with Social Security. The Social Security, program, though, is America's most important social contract on which millions of elderly Americans rely and will rely for decades to come, so changes must be made with the utmost care. As the Roth amendment is now drafted, we have two particular objections. First, we disagree with the finding that we will have budget surpluses for the next 10 years; we will not. We will continue to run deficits that will be masked by Social Security surpluses. By law, Social Security surpluses must be invested in Treasury notes. Social Security gets those notes, which are the equivalent of Government IOU's, and the money goes into the Treasury. That money is then spent. The only other alternative to spending the money would be to pay down the debt, but instead of paying down the debt the Federal Government has regularly run huge yearly deficits. Even this year, and over the next several years, the Government will not really run surpluses, because those surpluses are using the surplus taxes that Social Security is collecting. Social Security will continue to run surpluses until 2012, at which time it will start to run in the red, and it will be in the red by trillions of dollars until 2029 when it will officially exhaust its supply of Federal IOUs. Thus, the "surpluses" that would be invested by this amendment are really Social Security funds that should be saved, preferably by paying down the debt, and additional funds should be found for IRAs. Our second concern with the Roth amendment is that it may be the initial step in ending the guaranteed nature of Social Security. The market is doing well now, but markets do not always do well. Maybe the solution that is needed is a system that allows for some benefits from investing that will then relieve pressure on Social Security payments, but with a guarantee that if the investments go sour the minimal Social Security benefits that would have been provided under the current system will still be provided. Though we oppose the Roth amendment, we are not rejecting the idea of Social Security IRAs. The idea needs further study. All we mean by our votes against the Roth amendment is that we object to the specifics of the amendment, not the general principal.